
Minutes

Board of Natural Resources Meeting

October 2, 2007
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

Doug Sutherland, Commissioner of Public Lands

Jon C. Kaino, Commissioner, Pacific County

Daniel J. Bernardo, Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

Bruce Bare, Dean, University of Washington, College of Forest Resources

BOARD MEMBERS ABSENT

Bob Nichols, for Governor Christine Gregoire

Terry Bergeson, Superintendent of Public Instruction

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:10 a.m. on, October 2, 2007 in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Bruce Bare to approve the September 4, 2007 Board of Natural Resources Meeting Minutes.

SECOND: Jon Kaino seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

None

TIMBER SALES (Action Item)

Proposed Timber Sales for November 2007 (Handout 1)

Jon Tweedale came forward to present the November 2007 timber sales. He gave a brief update of the market stating that it has changed and small diameter sales are no longer viable. He added that the strike in British Columbia is influencing strong stumpage.

September 2007 Sales Results:

7 sales offered & 5 sold; 34.4 mmbf offered & 26.9 mmbf sold; \$11.5 million minimum bid & \$10.5 million sold; \$334/mbf offered & \$392/mbf sold; average number of bidders = 4.4. *One sale out of the seven offered was withdrawn.

Proposed November 2007 Board Sales:

13 sales at 54.2 mmbf; \$11.0 million minimum bid; average \$244/mbf.

MOTION: Jon Kaino moved to approve the November 2007 timber sales.

SECOND: Dan Bernardo seconded.

ACTION: Motion passed unanimously.

CHAIR REPORTS

RMCA FDA Presentation (Handout 2)

Bob Van Schoorl came forward to present. He gave a brief update on funding and where the revenue goes.

Mr. Van Schoorl discussed several graphs which showed where the dollars come from:

- \$216.1 million comes from Timber sales
- \$13.1 million comes from Trust Land Transfer
- \$9.6 million comes from Agricultural Leases
- \$8.4 million comes from Commercial Real Estate
- \$3.9 million comes from Minerals and Hydrocarbon
- \$2.8 million comes from Communication Sites
- \$4.0 million is comes from various places and fall under "other"

The next graph showed where the revenue goes:

- \$89.5 million goes to the Beneficiaries
- \$81.1 million goes to the Management Funds
- \$72.7 million goes to the Counties
- \$14.5 million goes to the Permanent Funds
- \$3.0 million goes to GFS

The next graph showed where the management dollars go:

- \$38.8 million goes to Product Sales and Leasing
- \$29.9 million goes to Land Management
- \$16.8 million goes to Administration
- \$8.4 million goes to Engineering
- \$7.7 million goes to Asset Management
- \$6.5 million goes to Capital
- \$5.6 million goes to Region Operations
- \$2.6 million goes to NRB Rent
- \$1.8 million goes to AG

*Total for Biennium is \$158 million and does not include land purchases

Mr. VanSchoorl then discussed the projected balances based on a 30% and 28% management fee.

Mr. Bare asked if this was a forecast.

Mr. Van Schoorl said this was not a forecast and that information from 2007 would be available in a few months in the DNR Annual Report.

Mr. Kaino asked if this included FDA.

Mr. Van Schoorl responded that it included RMCA and FDA.

Mr. Van Schoorl said based on his research and data a management fee set at 28% would be best.

Mr. Bare asked how much flexibility there was to change the rate.

Mr. Van Schoorl said they could change it often but advised against that.

Mr. Bernardo asked what the trend line looks like on the expenditure side. He felt it would be interesting to see how that relates to harvest and other legislation. He added that this information would be helpful in order to justify the increase to the beneficiaries.

Mr. Van Schoorl said he did not have that specific information with him but would provide it to the Board members as soon as possible.

Chair Sutherland added that when these charts are put together the Board members should see an increase in cost trend line.

Chair Sutherland said his recommendation would be to set the rate at 28%. He said next spring there would be an increased amount of harvest activity.

Mr. Bare commented on Section 5 of Resolution 1243 and said he would like to see stronger wording. He thought there should be some information regarding the difference between 27% and 28%.

Chair Sutherland asked if the following wording would be acceptable as an amendment in Section 5: "The Board shall determine any adjustments if necessary."

The Board agreed on the proposed amendment.

MOTION: Jon Kaino moved to approve the Resolution 1243.

SECOND: Chair Sutherland seconded.

ACTION: Motion passed unanimously

State of the State Lands Fiscal Year 2007 (Handout 3)

Bruce Mackey, Lands Steward, came forward to present.

Chair Sutherland wanted to be clear that in the presentation the numbers show either a combined number for the Eastside and Westside or if it's one or the other.

Mr. Bare asked what the 05 and 06 targets were.

Mr. Mackey gave the targets as follows: approximately 450 million board feet in FY05 and 480 million board feet in FY06 (in Western Washington).

Mr. Kaino asked which factors played into the loss of sales for 2006.

Mr. Mackey said there were several contributing factors including a high fire season, several powerful storms that washed out bridges and access to sales, and several salvage sales that did not sell the first time offered.

Mr. Tweedale added that the market and weather does play a role.

Mr. Mackey said his goal is to make sure these sales are prepared and ready to go so that in the event that they don't sell for whatever reason they are still ready to be re-offered when the market is right.

Mr. Tweedale added that traditionally in the last 5 years they have sold 98% of sales. There may be a few percent of no-bids but it's a factor of the market. Going in to December is the slowest time of the year.

Mr. Kaino asked Mr. Tweedale how confident he was that all targeted sales would be sold.

Mr. Tweedale said DNR would do everything they could to sell them but weather and market could affect it.

Mr. Mackey said strategically they would position these sales to sell at the best time possible and not necessarily just to meet the target.

Mr. Mackey talked about inventory stating that DNR is growing 8 million board feet per year. The Webster Nursery grows seedling and the overall volume is increasing.

Mr. Bare asked how the forest structure inventory might be changing.

Mr. Mackey said he did not know the answer to that.

He talked about Policy Area 1 which is economic performance. He said that State Lands Programs are following market trends for individual species and log grades, advertising for highest competitive bids, following carbon and biofuel markets, investigating opportunities for turning logging slash into pellets to be sold as alternative fossil fuels.

He talked about Policy Area 2 and Old Growth stating that DNR is in the process of defining and preparing inventory of old growth in Eastern Washington.

He moved onto Policy Area 3 stating that DNR had secured funding for an additional State Lands Archaeologist.

Policy Area 4: Implementation of Policy for Sustainable Forests (PSF):

Forest land planning is proposed for each HCP Planning Unit. The Forest Management Strategies are linking DNR policy with on the ground activities which would enable regions to do more advance planning.

Forest Land Plans (Schedule subject to change)

South Puget Sound 2006-2008

OESF 2007-2009

Columbia 2007-TBD

North Puget TBD (waiting for completion of the marbled murrelet)

South Coasts & Straits TBD (waiting for completion of the marbled murrelet)

Data for status of forest roads:

Active Roads 12,168

Construction 141

Reconstruction 136

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Active Forest Roads Abandoned 102
Roads Decommissioned 39
Fish Barriers Removed (number completed) 120
Stream miles opened up for fish passage 60

What are the major non-timber programs & how much revenue do they earn (in millions):

Agricultural Leases \$10.9
Grazing Leases \$0.7
Commercial Real Estate \$9.3
Special Use Leases \$1.0
Communications Sites \$3.2
Minerals, Oil & Gas \$6.6
Rock, Sand, & Gravel \$.08
Rights of Way \$0.4
Leasing Total: \$33.4

How much total revenue was earned in Fiscal Year 2007 (dollars in millions)

Leasing \$33.4
Timber Revenue \$173.4 *from timber removals
Total Revenue \$206.8

Bill Boyum, Southeast Region Manager, came forward. He informed the Board that wheat prices are good right now and most of the leases are on a sharecrop basis with DNR receiving 20-30% of the crop.

Trust Asset Transactions Summary (Handout 4)

Stephen Saunders and Bonnie Bunning came forward to present. Chair Sutherland informed the Board that Kit Metlen had retired as the Division Manager for Asset Management and Protection Division and that Steve had been named as the new Division Manager.

Mr. Saunders began by discussing the DNR Land Transaction Objectives for the 2005-2007 Biennium:

- Improve financial performance
- Protect sensitive environmental features and/or meet social needs
- Maintain trust land base

He stated that there had been 35 transactions closed in FY 2007, predominantly sales and transfers. 79 transactions closed in the 05-07 biennium.

He then discussed Asset Class saying there was a total of 11,092 acres acquired and 19,555 acres disposed.

2007-2009 Legislative Direction:

- \$70 million appropriated from replacement accounts to acquire forest lands under threat of conversion to non-forest uses
- \$ 4 million appropriated to acquire forest lands on Blanchard Mountain in Skagit County
- \$99 million appropriated for the Trust Land Transfer program

2007-2009 Department Goals

- Complete exchanges begun last biennium
- Acquisition of converting forest land to meet legislative intent
- Increase sales, transfers and purchases to meet \$70 million target for land acquisition

Chair Sutherland asked how many people were in Mr. Saunders group.

Mr. Saunders said there were about 10 people actively involved in the transactions.

Chair Sutherland added that the last data he saw showed over 200 transactions to complete.

Mr. Saunders noted that in 05-07 they had actually come real close to the diversifying assets goal of 1/3 each for agriculture, forest, and commercial transactions, in spite of some external constraints on agriculture and commercial acquisitions.

Bonnie Bunning began her portion of the presentation. She began by discussing the strategies for the future of the trust land transaction program:

- Acquire productive trust quality forest lands at risk of conversion
- Maintain and expand trust holdings of high performing irrigated and dry-land agricultural lands
- Continue to use transactions to improve the economic performance of each trust's land assets
- Position and capitalize the trust land base for multiple public benefits and ecosystem services
- Convert higher value, low income producing trust lands to lands that protect or enhance trust land working farms and forests
- Continue to secure valuable conservation lands, that provide a diversity of public conservation values across the landscape

Asset Management Program Update

Regions updating asset inventory and assessments:

- Using long established criteria derived from Board policies by asset class
- Areas and properties to consolidate and hold
- Properties to transition to public entities, tribes, or the private sector
- Working the stakeholders to bring others plans and tools into focus and identify common goals that can be met more smoothly with planning
- The regions would be presenting updates to the Asset Management Council (AMC) through December 2007
- Agency would develop statewide strategy by mid-January 2008
- Asset inventories based on region updates January through March 2008
- Collaborate with partners on land acquisition and disposal strategies

Ms. Bunning highlighted the Capitol Grant Trust Land Portfolio for FY06. There was a total of 111,461 acres and a timber and land value of \$200,393,766. The market value for land was \$32,065,930 and the gross revenue was \$9,906,275.

She stated that the trust quality forest land values would have the following characteristics:

- Productive
- Operable
- Stable slopes
- Compatible to surrounding land uses
- Adjacent to or near existing DNR managed blocks

She listed the following as forest land conversion risk factors:

- Land use
- Development patterns and location
- Ownership

- Value

Mr. Bernardo commented that this had been the best meeting and these presentations provided valuable information.

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

None.

The meeting adjourned at 11:56 a.m.

